

EDUCATIONAL SERVICE DISTRICT NO. 112  
Clark County, Washington  
September 1, 1994 Through August 31, 1995

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Schedule Of Federal Findings

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1. Educational Service District No. 112 Should Limit Federal Program Charges To Allowable Costs

Educational Service District No. 112 received a National and Community Service grant (CFDA 94.001) from the Commission on National and Community Service. The grant was passed through Oregon State University (OSU).

Our review disclosed unreported program income in and questioned costs charged to this program as follows:

Excess administrative charges ) secretaries	\$ 27,423
Excess administrative charges ) director	58,620
Program income not returned to grantor	22,833
Consultant fees to develop district	
fundraising strategies	18,000
Late fees paid to OSU's motor pool	<u>300</u>
Total	<u>\$127,176</u>

The district allocated 90 percent of the director's salary and benefits as direct program costs. Our review of the director's calendar found incomplete documentation of his activities. However, activities which related to program oversight and administration clearly amounted to more than 10 percent of the director's time. Due to the lack of specific documentation and because the federal definition is not clear regarding activities considered direct versus administrative, we were unable to determine the correct allocation of the director's salary and benefits.

Concerning administrative costs, 45 CFR (*Code of Federal Regulations*) 2500.2(a) and 45 CFR 2504.7, respectively, state in part:

(2) *Administrative costs or expenses include:* Costs associated with overall program administration; salaries and benefits for director and administrative staff of existing organizations that sponsor a funded program.

*Reservation of Funds.* Not more than five percent of funds received . . . shall be used for administrative costs for any fiscal year.

Concerning program income, 45 CFR 2541.210(f) and 45 CFR 2541.250(g), respectively, state in part:

*Effect of program income, refunds, and audit recoveries on payment*  
... (2) ... grantees and subgrantees shall disburse program income  
... earned on such funds before requesting additional cash payments.

*Use of program income* ... (1) *Deduction.* Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs. Program income shall be used for current costs unless the Federal agency authorizes otherwise.

Concerning consultant fees, Office of Management and Budget's (OMB) Circular A-87, Attachment A, Part C.1. states in part:

To be allowable under a grant program, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient administration of grant programs . . . .

Concerning late fees, OMB Circular A-87 Attachment B, Part D.5, states in part:

Costs resulting from violations of, or failure to comply with Federal, State and local laws and regulations are unallowable.

Excess administrative costs resulted because salaries and benefits of the secretaries were budgeted and charged as direct program costs. In accordance with the definition contained in the applicable CFR, these costs are administrative and exceed the five percent limit described in the appropriate CFR. The district indicated that OSU approved the budget and the charges as program costs.

Program income is generated by deductions from stipends paid to program participants to cover housing costs. Because the district collected more revenue from participants than they expended for housing costs, the excess of \$56,822 should have been deducted from other program direct costs as specified in the applicable CFR. The district has remitted \$33,989 of the excess program income. The unremitted balance of \$22,833 overstates allowable costs and is the result of an oversight.

Payment of consultant fees occurred because the district indicated they had received verbal approval from OSU.

The late fee payment occurred because of an oversight on the part of district personnel.

The effect of the instances noted above is that the district has overcharged the grantor and risks losing future federal funding.

We recommend that Educational Service District No. 112 resolve the questioned costs to the satisfaction of the grantor and improve their understanding of federal regulations to prevent future charges of unallowable costs to federal programs.